

Joe Biden win, vaccine trial news propelled global stocks to new highs

Stock markets around the world rallied to new highs as Joe Biden crossed 270 electoral vote threshold needed to win the US Presidential election, while Pfizer announced its coronavirus vaccine candidate, which it developed in partnership with Germany's BioNTech, was over 90% effective in preventing infections and that it could begin rollout in limited quantities by end of the year. These bullish market condition was achieved despite record high coronavirus infections and hospitalisations in US-Europe, which imply the pandemic could worsen before it got better, and President Trump's refusal to concede the election. Meanwhile, a light economic calendar showed lower than expected US weekly jobless claims of 709,000 but weaker than expected Michigan Consumer Sentiment survey. EU industrial production growth of -6.8% YoY in September was below consensus while ECB signalled it would expand pandemic emergency purchase program. These positive news also pushed commodity prices and bond yields higher as investors rotated from safe havens and lockdown winners (such as tech stocks) into cyclical stocks that should benefited the most from economic recovery.

In Indonesia, JCI gained 2.35% as foreign inflows continued into third week in both equity and bond markets (Rp4.45Tn and Rp11.5Tn, respectively), which led to declining 10-yr yields to 6.32% and 5-year CDS rate to 75.74, both at near their pre-pandemic record lows, and currency appreciation. Key market drivers were major cyclical stocks in banking, basic industries, retailing, utility, property and construction sectors, including underperforming telecommunication stocks, while outperforming consumer stocks were among the laggards.

The Week Ahead – Indonesia Interest Rate Decision & Current Account

The key economic calendar to watch out for in the week ahead are Indonesia Trade Balance & Business Confidence (Mon 09:00/11:00), Indonesia Auto Sales (Tue 10:30/16:30), US Retail Sales & Industrial Production (Tue 20:30/21:15), US Housing Starts (Wed 20:30), Indonesia Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 20:30), and Indonesia Current Account (Fri 10:00).

Investment Conclusion

Equity markets globally have recovered strongly, pricing in V-shaped recoveries in economic growth and equity earnings in 2021, as the worst of the economic fallout from the pandemic seems largely over despite fears over a second wave of infections. We believe Indonesia's coronavirus fallout is already fully priced in as JCI's forward P/E valuation has fallen to 20-yr average, while global markets valuation have returned to pre-pandemic highs of 1SD above long-term mean. We view Indonesia's market valuation as attractive and expect JCI to continue its recovery, driven by catalysts such as vaccine discovery and Omnibus Law, to reach our bullish case 2020 JCI target of 5,600 (our base case is 5,300). We also maintain our base-case 2021 JCI target of 6,300 (6,600 under our bullish case).

Recommendation

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our ESG ETF XISR (Sri Kehati) or XIPI (Pefindo i-Grade), which have overweight positions in BBCA, which is considered as defensive stock at times of uncertainty. Please note that ESG (Environmental, Social & Governance) ETFs globally saw record inflows of over US\$19bn in 2020 amid the pandemic, continuing its strong rise since 2019. For investors looking to benefit from further market rebound, our pick is ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors are among most impacted by foreign selling and thus should benefit the most from recovery. XIIML shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBCA and consumer stocks, and thus may be viewed as more risky at current market conditions. However, these two ETFs also have lowest valuation among of our ETF universe, with 2021F P/E of 14.2x and 13.7x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 16.2x), XIIT (at 16.3x), and XIIML (at 16.3x), and thus may have more upside potential if Indonesia's stock market recovers on a sustainable basis. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	29,479.81	4.08%	3.30%
S&P 500	3,585.15	2.16%	10.97%
Nasdaq	11,829.29	-0.55%	31.84%
FTSE 100	6,316.39	6.88%	-16.26%
DAX	13,076.72	4.78%	-1.30%
Nikkei 225	25,385.87	4.36%	7.31%
Hang Seng	26,156.86	1.73%	-7.21%
Shanghai	3,310.10	-0.06%	8.52%
EIDO	21.36	4.50%	-16.76%

JCI Sector Indices	Last	1W	YTD
JAKFIN	1,255.13	4.42%	-7.35%
JAKAGRI	1,243.73	3.76%	-18.41%
JAKINFR	876.03	3.27%	-22.99%
JAKBIND	824.82	3.04%	-15.67%
JAKMINE	1,510.83	2.41%	-2.44%
JCI	5,461.06	2.35%	-13.31%
JAKPROP	337.52	2.03%	-33.02%
JAKMIND	1,027.49	1.29%	-16.04%
JAKTRAD	659.58	0.28%	-14.32%
JAKCONS	1,816.77	-1.45%	-11.49%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.18	3 bps	-139 bps
UST 10Y Yield	0.90	8 bps	-102 bps
Ind GB 10Y Yield	6.32	3 bps	-74 bps
USDIDR	14,150	-60	284
CDS Indo 5Y	75.74	-8.59	13.50

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+4.45 Tn	-57.36 Tn
Government Bond Market (Rp)	+11.5 Tn	-96.93 Tn

Commodities	Last	1W	YTD
WTI	40.12	8.02%	-34.29%
Brent	42.78	8.44%	-35.18%
CPO (Malaysia)	3,341.00	5.03%	11.89%
Coal (New Castle)	62.65	1.62%	-7.46%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	905.25	3.86%	-13.51%
XIIT	IDX30	489.09	4.33%	-13.55%
XIJI	JII	592.21	1.82%	-16.01%
XISI	SMInfra18	283.11	5.19%	-17.26%
XISR	Sri Kehati	359.03	3.80%	-11.79%
XIHD	IDXHIDIV20	429.76	4.35%	-14.73%
XIPI	Pefindo I-Grade	158.39	5.42%	-11.72%
XIIML	MSCI Indo Large Cap	244.74	4.03%	-
XIID	IDX30	475.51	4.31%	-
XIIC	Consumer Related	984.81	2.94%	-13.11%
XIIF	Rate Sensitive	518.82	6.85%	-18.17%
XISC	BUMN Stocks	604.56	8.63%	-16.25%
XISB	Sovereign Bonds	433.38	0.27%	5.28%
<i>Conventional</i>				
RDMP	Equity	963.49	4.06%	-17.34%
RPCF	Balanced	2,729.56	3.94%	-8.39%
RDP2	Money Market	1,274.68	0.13%	4.22%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Fund	Fund Characteristics (% of Portfolio)					Cash	P/E (x)	Dividend Yield	Beta to JCI
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	2021F		2021F		
1	RLQ45	27.8	50.9	13.7	7.3	0.33	16.2	2.7	1.12	
2	XIIT	27.5	54.4	11.5	6.3	0.39	16.3	2.8	1.18	
3	XISC	20.5	37.2	26.4	14.9	0.98	13.7	3.3	1.22	
4	XISR	26.4	64.6	4.4	4.4	0.27	16.8	2.6	1.17	
5	XIIF	11.6	54.9	32.6	0.0	0.84	16.1	2.5	1.22	
6	XISI	43.7	16.8	25.4	13.6	0.40	14.2	3.2	1.13	
7	XIPI	19.7	61.7	16.5	1.7	0.43	17.6	2.2	1.20	
8	XIIC	42.9	43.4	12.4	0.0	1.28	16.9	2.9	1.10	
9	XIHD	32.2	51.4	6.9	9.3	0.21	16.1	3.0	1.17	
10	XIJI	46.8	13.3	27.0	12.5	0.37	18.4	2.6	1.09	
11	XIML	22.6	70.0	4.2	3.0	0.21	16.3	3.0	1.20	
12	XIID	27.5	54.3	11.5	6.3	0.39	16.3	2.8	1.22	
Index										
	IDX80	31.9	38.8	21.1	8.2		14.6	2.9		
	JCI	32.4	37.2	22.5	7.8		14.2	2.1		

Remarks:

*Red: Overweight to IDX80; Black: Neutral to IDX80; Green: Underweight to IDX80

Characteristic Classification :

*Defensive : Consumer Goods, Media, Telecommunication, and Infrastructure

*Rate Sensitive : Banks and Auto

*Dom. Cyclical : Cement, Property, Construction, Animal Feeds, and Retail Trade

*Commodities : Coal Mining, Metals & Oil Mining, Plantation and Misc. Industries

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